
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Development Services Department Fee Proposal

At the Land Use and Housing (LU&H) Committee meeting on September 2, the Development Services Department presented a comprehensive development review user fee proposal. Based on a fee study by Wohlford Consulting, the proposal would establish cost recoverable fees for development review and inspection services.

The last comprehensive user fee study was completed in 2003. In the time since that study was approved, unit costs have been driven up by increases in external inputs such as labor costs and overhead, while the fee structure has remained static. To address this situation in the future, the Department is also proposing an automatic annual cost inflator based upon changes in labor costs and overhead. Issues related to the automatic cost inflator were discussed by the LU&H Committee on September 2, and referred to the IBA for additional analysis.

On March 10, 2009, the City Council approved the General Fund User Fee Policy, which establishes the guidelines for setting and maintaining comprehensive user fee schedules. According to the User Fee Policy, once cost-recovery levels are established, “user fees shall be updated annually as a part of the budget process based on CPI inflation estimates or other annually adjusted inflators, until the next comprehensive user fee study is undertaken.” In this manner, user fees can be adjusted annually to maintain cost recovery levels, while avoiding the time and expense of conducting a formal user fee study. However, it is still important that user fee studies be completed periodically to ensure that fees are appropriately aligned with actual expenses. Under the Policy, a comprehensive user fee study shall be conducted every three years.

We support the DSD fee proposal, and believe that the process for annual adjustments should be consistent with the procedure outlined in the User Fee Policy. While the Policy was intended to apply to General Fund fees, we believe that it can reasonably be applied to non-General Fund fees as well. Following the procedure outlined in the Policy, development review user fees could be adjusted annually based on the appropriate inflation factor, and presented to Council as part of the annual budget process. A comprehensive user fee study would then be conducted every three years to ensure that fees are properly calibrated with actual expenses.

The Department proposes that annual adjustments be directly related to increases or decreases in salary and fringe, and overhead expenses as approved by Council. We believe that this methodology would be consistent with the User Fee Policy, which states “different methods of adjustments are acceptable such as using a Consumer Price Index (CPI), State and Local Implicit Price Deflator, Municipal Cost Index, or other inflators.” Since salary, fringe and overhead expenses are adjusted annually as part of the budget process, it would be natural and appropriate for DSD fees to be adjusted as part of the budget process as well, consistent with the procedures outlined in the User Fee Policy.

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